ADM Investor Services, Inc.

Weekly Futures Market Summary

November 13, 2023 **by the ADMIS Research Team**

BONDS:

Surprisingly, volatility in the treasury markets moderated last Friday despite the beginning of congressional chatter on the looming debt ceiling deadline this week. However, the markets have generally embraced a hawkish take away from last week's Fed news and the dismal 30-year bond auction continues to weigh heavily on market sentiment. This week US scheduled data is likely to be ignored with the focus turning toward Washington. The muted reaction to the Moody's Downgrade of its outlook of the US credit rating from stable to negative could be partially the result of the distinction between a downgrade of their outlook as opposed to an actual reduction of the "rating". However, traders should not discount the development as the warning could become a cut if the debt ceiling problem is kicked down the road, or the debt ceiling is raised or if Congress displays the usual unwillingness to govern with aggressive partisan fighting.

While many in Congress will not make the connection or care of the potential added cost from interest charges from a downgrade, there appears to be a misguided feeling in Washington that the US is above global risk assessment. This week will bring the beginning of the monthly inflation report cycle with Japan showing contractions in producer prices last night and the US and Spain posting Tuesday. If the treasury markets maintain a standard economic focus trade (instead of tracking geopolitical issues) the US CPI readings look to be minimally supportive of US treasuries with the CPI expected to post a softer October reading of 0.1% compared to 0.4% in September. However, if inflation dips and US data continues to throw off slowing evidence, we see treasuries taking out the early November high (a double high) at 115-12. It should be noted that Japanese producer prices in October fell 0.4% and a GBP Rightmove House price index posted a significant decline versus the previous month. In the end, we see the trade holding views that the US economy is softening/losing momentum, and we see inflation moderating which suggests a buy breaks mentality.

CURRENCIES:

While some may interpret the action in the dollar last Friday as nondescript, the index did post a higher high and higher low suggesting soft US data last week has been discounted and the trade has settled on a slightly hawkish interpretation of last week's Fed news. The focus of all financial markets will likely shift to November 17th (the continuing resolution deadline on the debt ceiling) with the dollar potentially facing a junction.

In our opinion, the dollar is threatened with a deterioration of the US economy following signs of "softening" scheduled data over the past two weeks. While the reduction in the outlook for US credit from stable to negative from Moody's should undermine the dollar, the trade is not showing concern for the weekend notice from Moody's. However, according to Bloomberg, the hedge funds continue to be bullish toward the dollar and are expected to push the dollar index above 106.00. However, there will not be regularly scheduled US data providing signals on the health or pace of the US economy early this week, but instead the US will release a monthly budget statement which is expected to show a much smaller deficit spend than in the prior month.

All things considered the range in the euro this week could be narrow again with action likely to expand dramatically later this week because of US jobs data on Thursday and US political maneuvering on the US debt ceiling which could become all encompassing. Obviously, the pound is oversold and deserving of the noted bounce this morning but a decline in the UK house price index should add a measure of resistance over the currency. However, signs of a jump in British private sector pay provides a cushion for the pound. While the Canadian dollar is significantly oversold from a technical perspective, the currency lacks classic bullish fundamental arguments to suggest last week's spike low was a solid low.

STOCKS:

The stock market managed to reject a five-day low probe last Friday, but investor opinions on the current policy bias at the Federal Reserve are mixed and the "bad US data is good for equities" might lose its bullish capacity. In other words, if the Fed has a hawkish bias, investors will interpret soft data as a double negative. From a technical perspective, the bear camp can point out the lower high and lower low trade last Friday. Looking forward to the next four trading sessions look to offer significant financial market uncertainty, and investors typically do not like uncertainty. Global equity markets at the start of this week were mostly higher with weakness seen in some Pacific Rim markets. The US markets have benefited from news of a possible sale of 90 Boeing 777X planes to Emirates and from signs that China might be set to end of the ban on Chinese purchases of Boeing 737Max planes.

All things considered, seeing US equities tracking around unchanged levels to start this week in the wake of the Moody's credit rating Outlook downgrade highlights residual bullishness. While the government will be shut down Sunday evening if no resolution is agreed upon, the GOP has released its plan to solve the upcoming threat. In the forefront, the markets turn their attention to the monthly inflation report cycle with the markets generally assuming central bankers are on hold and could be done hiking rates if US CPI and PPI soften this week. However, while it seems action in the treasury markets will be normal, traders should realize that force could become all-encompassing force in either direction this week. In other words, the action in interest rates will likely be an ignition point for the direction of equities into the end of this year. When one adds in the debt ceiling debacle potential, volatility in stocks could be very extreme. The bias is up from the charts and because of positive corporate news regarding Boeing.

Obviously the outlook for Boeing shares has improved with the Dubai airshow resulting in a possible deal between Boeing and Emirates for 90 777X planes and from rumors that China may resume purchasing Boeing 737 Max planes. Therefore, the Dow has a fundamental underpin helping prices start out in the upper portion of the prior six days trading range. However as indicated already the interest rate market is likely to be the primary driving force of upcoming price swings with the current bias favoring the bull camp. After the very impressive downside breakout reversal and strong close rally in the Nasdaq last Friday and prices sitting just below Friday's 40-day high, the charts favor the bull camp. In retrospect, news last week that Nvidia produced three new chips specifically for China is positive for the company and provides fundamental support for the NASDAQ.

GOLD, SILVER & PLATINUM:

Unfortunately for the bull camp, the gold trade continues to embrace the bearish bias from last week with expectations the dollar will continue to climb, and the charts remain bearish. With the last day of Diwali on Tuesday, the opportunity for Indian festival demand is past. While there will be an avalanche of global inflation readings this week, we do not see that information playing a determining role for gold and silver prices, and most readings expected to show only incremental changes it is unlikely there will be a definitive opinion on the direction of upcoming central bank policy changes.

While gold and silver have not shown bullish sensitivity to the US debt ceiling and credit rating news in the recent past, that could change later this week given the outlook downgrade by Moody's at the end of last week. However, the global tightening bias has been tempered because of recent data potentially shifting the focus of gold and silver to the US debt ceiling situation. On the other hand, we doubt anything definitive will be achieved until the waning hours before the shutdown this weekend, with Congress typically making it appear they have saved the country at the last minute.

In our opinion, the upcoming US debt ceiling battle, possible US government shutdown, Friday's credit rating agency US outlook downgrade (from stable to negative) and a very unusual battle possible between US central bankers and government fiscal policies has so far failed to provide a bid for gold. Therefore, it is possible gold, silver, and other physical commodities expect a return to the double negative outside market downdrafts from higher US interest rates and persistent gains in the US dollar. Historically, central bankers have avoided involvement in government fiscal policies as they are chartered as an independent institution.

However, the seriousness of the US debt threat has reached a level where the Fed's dual mandate of employment and controlling inflation could be subordinated to a US credit debacle. We see a brewing financial market volatility event which initially is likely push gold might and silver lower until the crisis reaches a fever pitch and then money could flow in aggressively with some potentially spilling into the Swiss franc. In conclusion, the magnitude of the upcoming financial "event" could act like an on off switch for gold and silver. Like gold, we suspect silver will continue to slide until there is a significant financial market volatility event with initial pressure likely to be severe and a bottoming likely from a spike down recovery.

COPPER:

Even though weekly Shanghai copper warehouse stocks posted a moderate decline late last week, equities showing periodic strength and interest rates at times ticking lower, the copper market ranged down and violated a series of key charts support levels at the end of last week which extends last week's pattern of damaged charts into a new week. In retrospect, economic news from China continues to be very discouraging, and this week could present a major macro-economic smack down of physical commodities from fear of a US government shutdown or worse a global financial crisis as US debt concerns flare.

However, the trade was already beginning to lose its optimism regarding a near-term global economic turnaround and given the start of the monthly inflation report cycle, interest rates are likely to become more important to copper and other physical commodity markets this week. While exchange stocks of copper have supported prices from general outflows recently, the magnitude and inconsistency of those declines have not managed to offset sticky demand fear. In a negative from the supply front, Peru last week indicated their September copper production increased by 2.5% in September were the prior year with a production of 235,178 tonnes.

ENERGY COMPLEX:

Despite a lack of definitive risk on mentality flowing from global equity market action overnight December crude oil has tracked higher early this week with market attempting to respect the 200-day moving average at $76.70. Supporting prices internally is news that weekly oil in global floating storage declined by 26% last week, with storage seemingly falling in all key regions measured. Asia-Pacific supply was down sharply with West African storage down 35%. However, on the demand side of the equation, the trade generally fears softening US and Chinese demand which coincides with recent soft data from both countries.

While not at the forefront of energy traders' focus, the potential for a US government shutdown and wild volatility in financial markets could deflate energy demand expectations later this week. As for the situation in the Middle East, Israeli tanks are positioned at the main Gaza hospital and a chorus of demands to end the war from Arab and Muslim leaders is becoming louder. While the daily cease-fire for humanitarian reasons has de-escalated the Middle East situation, history indicates tempers in the Middle East do not moderate quickly and compromises are not typical.

Over the weekend, there were signs of softening Asian prices from softer demand, but that influence could be offset by WTI backwardation shifting to contango at the end of last week. Critical economic data ahead contains producer and consumer price inflation readings from several countries which could add to or detract from recent hawkish US central bank views. As in many physical commodity markets, gyrations in the dollar and interest rates this week are likely to dominate over internal energy market fundamentals. In fact, without additional direct military support from a third-party, the bias of petroleum looks to point to the downside with gains likely to be temporary technically motivated events.

The gasoline market appears to have found some value at last week's double low around $2.1220 with open interest rising during that bottoming process. While the gasoline market is not as directly tied to the Middle East situation, gasoline prices last Friday closed right at the levels registered at the start of the fighting. Looking to this week's inventory data (EIA was delayed for statistical adjustments last week) we think gasoline inventories will build, prompting renewed demand selling with a measure of supply selling mixed in. With another inflow to gasoline stocks,

EIA gasoline stocks will have seen their annual surplus increase four straight weeks with 16.88 million barrels more in place than last year. However, there is a supportive angle from the demand front as implied gasoline demand has generally been held together which suggests the demand bears not being helped by the weekly EIA report. Like the gasoline market, the diesel market also forged a double low last week at $2.6960 and showed respect for the even number $2.70 level. Unfortunately for the bull camp in diesel, temperatures in the US, Beijing, and Europe have not resulted in below normal temperatures and early heating demand. The likely end to the Russian diesel/fuel export ban should soften global prices and have a knock-on impact on US diesel.

Noted strength in US gas futures prices early this week is very surprising in the face of news that China is "reselling" cargoes and with European gas prices falling because of oversupply. However, there is talk of improved demand from slightly cooler temperatures US and European, but we are highly critical of that bullish theme. In the current condition, the most likely source of a bottom in natural gas is a full exhaustion of speculative selling interest and aggressive highly inadvisable short hedging.

While some cooler temperatures could lend support to prices, in our opinion it will take a much colder than normal pattern to arrest the slide in prices. In fact, the Russian national gas company continues to ship steady gas levels through Ukraine and the market showed no response to the threat of potential new UK sanctions on Russian gas companies and certain Russian oligarchs. From a mechanical perspective, recent trading has signaled softening Asian spot LNG prices, and we see limited buying for storage even though sovereign strategic buying is likely to finish filling storage levels to capacity.

BEANS:

The latest USDA supply and demand report featured a loosening of the balance sheet as yields were raised.3 bushels per acre and carryout was higher than expected, which turned the tide to the bear camp. The small yield increase added 25 million bushels to the carryout with other balance sheet categories left unchanged. State yields were increased in 14 states and decreased in 2 states. The report put the focus back on adequate supplies and the bearish price reaction following the report probably was exacerbated by chances of rain in the center and north dry areas of Brazil beginning late next weekend, 9-10 days out.

Before the report, CONAB raised their soybean production estimate to 162.42 million tonnes, up from 162 previously, and well above last year's crop of 154.60 million tonnes. USDA left their Brazilian crop unchanged at 163 million tons. Southern Brazil rains are expected to start again in the next few days, while central and northern Brazil will stay mostly hot/dry through the end of next week, then potential showers move in. Sunday nights forecast for Brazil will be important to price direction early next week.

The Buenos Aries Grain Exchange says Argentine's bean crop is 6% planted so far and rains there are expected to increase bean acres slightly. This week, China and Unknown have bought 2.853 million tonnes of US beans; however, futures prices look like they will be closing lower for the week, which is disappointing to the bulls. Close-in support on January futures is 13.34 with trendline support at 13.21. With possible beneficial showers in the extended Brazil forecast, the bear camp looks to have the edge to end the week.

The November USDA supply and demand report was seen as moderately bearish and US soybean production for 2023/24 came in at 4.129 billion bushels, which was above the average expectation of 4.102 billion but within the range of expectations from 4.037 to 4.162 billion. This was up from 4.104 billion in the October report. Yield came in at 49.9 bushels/acre versus 49.6 expected (range 48.9-50.3) and up from 49.6 in October. Ending stocks came in at 245 million bushels versus 223 million expected (range 190-261 million) and higher than 220 in October.

World 2023/24 ending stocks came in at 114.5 million tonnes versus 115.5 million expected (range 114-117.8 million) and down from 115.6 million in October. Brazil and Argentine production were left unchanged. The Export Sales Report showed that for the week ending November 2, net soybean sales came in at 1,080,181 tonnes for the current marketing year and none for the next marketing year. Cumulative soybean sales have reached 50.8% of the USDA forecast for the 2023/2024 marketing year versus a 5-year average of 56.7%. Sales need to average 543,000 tonnes per week to reach the USDA forecast.

Net meal sales came in at 193,480 tonnes for the current marketing year and none for the next marketing year. Cumulative meal sales have reached 41.8% of the USDA forecast for the 2023/2024 marketing year versus a 5-year average of 36.2%. Sales need to average 170,000 tonnes per week to reach the USDA forecast. Net oil sales came in at 2,598 tonnes for the current marketing year and none for the next marketing year. Cumulative oil sales have reached 14.0% of the USDA forecast for the 2023/2024 marketing year versus a 5-year average of 22.5%. Sales need to average 3,300 tonnes per week to reach the USDA forecast.

CORN:

A modestly bearish USDA supply/demand report sent December prices to a new low for the year and that is keeping the bear camp in control. The surprising 1.9 bushels per acre increase in yield caught traders off-guard, as all but three states saw yield increases. However, demand categories increased to offset some of the larger production. Since corn prices had already been languishing around the year's lows, we wouldn't expect a washout lower from here.

The near-term forecast for Brazil remains hot/dry through late next week, but forecast models are hinting at beneficial rains possible after that. Although it is early in the growing season, Updated forecasts for Brazil will be important to the corn trade early this week. Funds are heavily short corn but currently have no reason to cover. If December prices can move back over 4.81, a technical bounce could ensue. For now, the bear camp remains firmly in control, but we see long-term support in the 4.50-4.60 area.

The November USDA supply and demand report featured US corn production for 2023/24 at 15.234 billion bushels, above the average expectation of 15.089 billion and near the upper end of the range of expectations from 14.900 to 15.302 billion. This was also up from 15.064 billion in the October report.

Yield came in at 174.9 bushels/acre versus 173.3 expected (range 172-175.7) and up from 173 in October. Ending stocks came in at 2.156 billion bushels versus 2.141 billion expected (range 1.996-2.498 billion) and up from 2.111 billion in October.

World 2023/24 ending stocks came in at 315 million tonnes versus an average estimate of 311.8 million tonnes (range 307-315 million) and up from 312.4 million in October. Brazil and Argentine production was left unchanged. This morning, CONAB updated their corn production estimate to 119.1 million tonnes, down from 119.4 previously.

The Export Sales Report showed that for the week ending November 2, net corn sales came in at 1,015,320 tonnes for the current marketing year and 140,000 for the next marketing year for a total of 1,155,320. Cumulative sales have reached 37.5% of the USDA forecast for the 2023/2024 marketing year versus a 5-year average of 40.1%. Sales need to average 743,000 tonnes per week to reach the USDA forecast.

WHEAT:

The USDA supply and demand report made a few minor changes which resulted in a small carryout increase of 14 million bushels, resulting in ending stocks coming in above expectations and sending futures prices lower. SRW wheat production was raised 11 million bushels in HRW wheat production was essentially unchanged. The stocks-use ratio increased to 36.87%, compared to last month's report at 36.04%. World ending stocks did not feature any major surprises and there wasn't much in the report for the bull trader. Luckily for the bulls, even with the post-report price break, the trend of 6 of the last 7 trading days having a higher daily low remained intact. Wednesday's huge trading volume, the highest since March 2022, is significant and we think support will be evident on breaks.

Chicago December futures October high of 6.04 1/2 still remains the key to getting a larger rally. The Buenos Aries Grain Exchange says the Argentine wheat harvest is 14.4% complete. The US Plains will stay dry for the next 10 days. Francis struggling to speed their SRW crop as heavy rains continue to delay fieldwork. 67% of the crop is planted compared to 83% average and 91% last year. Of note, a French wheat vessel is headed to New York to an Ardent Mills flour facility. USDA bumped up US wheat imports yesterday to the highest in six years. Despite the modestly bearish report, we think this week's action is positive for wheat and we look for support on breaks.

The November USDA supply/demand report featured larger supplies, decreased domestic use, unchanged exports, and higher ending stocks. Supplies were raised on increased imports, which were up 10 million bushels to 145 million. Total domestic use is projected to be 4 million bushels lower at 1.155 million. With no other changes to the US balance sheet, projected ending stocks were raised by 14 million bushels to 684 million above the average trade expectation of 670 million, but within the range of expectations from 650 to 696 million.

USDA cut production in Argentina by 1.5 million tonnes but left Australia unchanged, making further cuts for Australia likely in coming reports. India's crop was also lowered 3 million tons to 110.55 million, however, the USDA attache just released his estimate of 106 million tonnes yesterday. To offset the cuts, USDA increased Russian wheat production 5 million tonnes. World ending stocks came in at 258.7 million tonnes versus 257.9 million expected (range 256-261 million) and up from 258.1 million in October.

The Export Sales Report showed that for the week ending November 2, net wheat sales came in at 354,298 tonnes for the current marketing year and none for the next marketing year. Cumulative sales have reached 61.5% of the USDA forecast for the 2023/2024 marketing year versus a 5-year average of 59.5%. Sales need to average 169,000 tonnes per week to reach the USDA forecast.

HOGS:

February hogs spent last week consolidating their gains off the October contract lows, but the fundamentals appear to have shifted in a positive direction. The CME lean hog index turned higher last week from its lowest level since May, which makes the cash market situation look less dismal. As of November 8, the Index was priced at 76.87, up from 76.69 the previous session and 76.84 the previous week. The USDA estimated hog slaughter came in at 452,000 head Friday and 191,000 head for Saturday. This brought the total for last week to 2.576 million head, down from 2.671 million the previous week but up from 2.501 million a year ago. The USDA pork cutout released after the close Friday came in at $87.72, up $1.88 from Thursday and up from $86.03 the previous week. USDA reports last week were supportive as well.

In the monthly supply demand report, USDA lowered its forecasts for US pork production by 72 million pounds for 2023 and 165 million for 2024. Total production is still expected to come higher in 2024, at 27.730 billion pounds versus 27.217 billion in 2023. Production is expected to decline by 550 million pounds from the first to the second quarters, which follows a seasonal tendency, but it would be the largest decline for that period since 2021 and the third largest in at least 20 years. Last week's export sales report showed US pork sales for the week ending November 2 at 51,358 tonnes, up from 31,645 tonnes the previous week and the highest since April. China's national average spot pig price as of November 13 was up 0.77% from the previous session and up 1.90% for the month.

CATTLE:

February cattle traded in a narrow range last Friday at the bottom of Thursday big range down, and while this may not be indicating a clear rejection of last week's lows, it does suggest a possible near-term low after declining 6% in one week. The USDA estimated cattle slaughter came in at 114,000 head Friday and 11,000 head for Saturday. This brought the total for last week to 618,000 head, down from 632,000 the previous week and 670,000 a year ago. The USDA boxed beef cutout was up 51 cents at mid-session Friday and closed $1.04 higher at $300.46. This was down from $302.34 the previous week.

Cash live cattle were lower last week, with a five-day, five-area weighted average price of $180.07, down from $184.89 the previous week. US beef production is expected to decline by 180 million pounds from the fourth to the first quarters, which is smaller than average for that timeframe, but it is still larger than the ones in 2022, 2021, and 2020. Total US beef production for 2024 is expected to come in at 25.810 billion pounds, down from 26.932 billion in 2023.

COCOA:

The cocoa market has received support from a bullish supply outlook and an improving demand outlook that have helped to maintain a 13 1/2-month uptrend. While this projects even higher price levels over the rest of this year, it may not take much in the way of bearish news to trigger a sizable pullback in the cocoa market. Cocoa prices reached the 4000 level for the first time since 1978 as December cocoa went on to post a sizable gain for Friday’s trading session. For the week, December cocoa finished with a gain of 93 points (up 2.3%) and a sixth positive weekly result in a row.

A delay in providing financing for Ghana’s Cocobod to purchase this season’s main crop has caused a further boost in West African supply anxiety, as that could disrupt Ghana’s flow of cocoa exports during the fourth quarter. There were reports that a group of Cameroon co-ops sold their cocoa at a record high farmgate price, and that may also contribute to West African near-term supply anxiety. In addition, a sizable rally in US equity markets late on Friday provided cocoa with carryover support, as that could lead to knock-on buying in Asian and European stock markets that in turn can help to improve cocoa’s near-term global demand outlook.

COFFEE:

While coffee's November rally appears to have run out of upside momentum, the market will start this week well above its 3 major moving averages. If global risk sentiment continues to improve, coffee prices should find their footing early this week. December coffee fell back on the defensive before it could retest Thursday's 4 1/2 month high as it finished Friday's trading session with a sizable loss. For the week, however, December coffee finished with a gain of 3.60 cents (up 2.1%) and a fourth positive weekly result over the past five weeks.

The likelihood that Brazil will have another production increase with their upcoming 2024/25 Arabica crop has weighed on coffee prices as that should also result in an increase for 2024/25 Brazilian coffee exports as well. A sharp year-over-year increase in Colombia's October production also put pressure on the coffee market going into the weekend, as it shows that their output is starting to recover from the negative weather impact of the 2021-23 La Nina weather event. ICE exchange coffee stocks were unchanged on Friday, but they will start this week's action more than 86,000 bags below their October month-end total and at their lowest level since April of 1999.

COTTON:

With the USDA supply demand report behind them, cotton traders may have taken some interest in the recent spike in US export sales, particularly from China. Last week's export sales report showed cotton sales for the week ending November 2 at 439,698 bales. This was down from 544,953 the previous week but it was the second highest since June 1. China was the largest buyer at 259,963 bales, and it was their second strongest week since June.

The USDA report last week was negative, but the market put in a low the day before the report was released. The report showed an increase in US 2023/24 ending stocks, but it was from an extremely tight level. World ending stocks increased by 1.6 million bales, and consumption was lowered by 500,000. After a 19% decline from the September highs, traders may be thinking the market has put in its harvest low. Last week's Crop Progress report showed 57% of the US crop had been harvested as of November 15.

SUGAR:

The sugar market continues to have a bullish global supply outlook due to significant production issues in India and Thailand. The Brazil supply situation remains bearish, however, and a reminder of that put the sugar market back on the defensive going into the weekend. March sugar was unable to shake off early pressure as it went on to finish Friday's trading with a heavy loss. For the week, March sugar finished with a loss of 0.48 cent (down 1.7%) which broke a 2-week winning streak and was a negative weekly key reversal from last Tuesday's 12-year high.

The Brazilian trade group Unica released their latest supply report which showed Brazil's Center-South sugar production during the second half of October came in at 2.35 million tonnes, which was 9.4% above last year's total and above trade forecasts. Center-South cane crushing was 8.0% above last year while Center-South ethanol production was 11.5% above last year. Sugar's share of Center-South crushing was 48.7% which was virtually in-line with last year's comparable reading, while cane yields were 1.1% above last year which broke a streak of yields that were below last year's levels. Center-South domestic ethanol sales during October were 17.7% above last year's level, which would be a third month in a row above 2022's result.

>>Questions? Please contact us at + 1 877 690 7303 or via email at sales@admis.com for comments on this report or would like more information about our ADMIS research reports.

Follow ADMIS on Social Media